Press Release

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TRIS Rating Assigns Company Rating of "STEC" at "A-" with "Stable" Outlook

TRIS Rating has assigned the company rating of Sino-Thai Engineering & Construction PLC (STEC) at "A-" with "stable" outlook. The rating reflects STEC's strong business profile as one of Thailand's leading construction contractors and longstanding track record of completing projects for private and public-sector clients. The rating also recognizes STEC's resilience to a drop-off in the engineering and construction (E&C) industry, due to the strength of its financial profile, as well as its large and fairly-well diversified backlog. However, these strengths are partially offset by the cyclical nature of the E&C industry and stiff competition. The rating is also constrained by a potential rise in the financial leverage in the wake of forthcoming large-scale projects and investments in the power business.

The "stable" outlook reflects TRIS Rating's expectation that STEC will maintain its strong market position and its competence in securing and completing projects. STEC is expected to remain highly profitable and well manage its liquidity over the course of the large-scale construction projects. The capital structure will remain solid despite a potential rise in gearing.

The credit upside case would emerge if revenue and operating cash flow are significantly higher than expected. The downside risk could arise if STEC's financial profile drops significantly, possibly due to project delays and cost overruns.

STEC was established in 1962 by the Charnvirakul family, and listed on the Stock Exchange of Thailand (SET) in 1992. STEC is a well-known construction contractor, providing engineering and construction services to the public and private sectors. The company is known for its expertise in constructing power plants and petrochemical plants, plus its ability to undertake piping and steel structure fabrication works. During the last few years, about half of STEC's revenue was generated by public work projects, and the rest by projects for private sector clients. From the view of the end-markets STEC serves, infrastructure projects contributed nearly half of total revenue, followed by power projects (26%), building projects (21%), and industrial plant projects (6%). The revenue mix, however, varies overtime.

The rating reflects STEC's strong business profile, backed by its competence in undertaking various types of construction and engineering work, as well as its strong market position. STEC is ranked fourth among SET-listed contractors in terms of annual revenue and total assets. The company is categorized as a class 1 licensed contractor for all government authorities and state enterprises. STEC is one of the few prequalified construction contractors which is eligible to bid for large public work projects. STEC has an established track record, making the company highly capable of bidding for several large infrastructure projects in the years ahead.

STEC, through BSR Joint Venture, recently won bids for the Metropolitan Rapid Transit (MRT) Pink Line and MRT Yellow Line projects, under the public-private partnership (PPP) scheme. The two projects have a combined contract value of Bt105.4 billion. BSR Joint Venture comprises BTS Group Holding PLC (BTS) (75% ownership), STEC (15%), and Ratchaburi Electricity Generating Holding PLC (RATCH) (10%). STEC will be responsible for the civil work on both projects, worth approximately Bt40 billion in aggregate. In addition, STEC, as one of the equity partners in BSR Joint Venture, will have to make sizable investments over the next few years. However, the profits generated from the construction work on both projects will comprise a large portion of the equity STEC must inject into BSR Joint Venture. Furthermore, STEC won three contracts for the construction of the MRT Orange Line project under the name of CKST Joint Venture, worth totally about Bt47.2 billion. CKST Joint Venture is held 60% by CH. Karnchange PLC (CK) and 40% by STEC. Although the three mass-transit lines will boost STEC's revenue over the next few years, the simultaneous undertaking of these three large-scale construction projects will be a challenge.

STEC's revenue has fallen recently, from Bt22.3 billion in 2013 to Bt18.3 billion in 2015, caused in large part by delays of the much-anticipated public projects. However, the construction work for the three mass-transit lines, coupled with the government's efforts to expedite the approvals of many infrastructure projects, will push revenue higher in the coming years.

STEC, as its business diversification strategy, entered a new industry, electricity generation, in 2016, in a move to ward off contractions in revenue during downturns in the E&C industry. In August 2016, STEC acquired a 2.78% stake in Absolute Clean Energy Co., Ltd. (ABCE), the operator of biomass

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power plants in Thailand. STEC paid Bt500 million for the stake. In November 2016, STEC acquired a 10% stake in Thai Solar Energy PLC (TSE), a developer of renewable power projects in Thailand. The acquisition price was Bt880 million. It is possible that STEC will invest more in the power business in the next few years. However, TRIS Rating does not expect that the sizes of the investments will materially hurt STEC's financial profile.

The rating also recognizes STEC's resilience to a drop-off in the E&C industry, due to the strength of its financial profile, as well as its large and fairly-well diversified backlog. STEC's financial profile is healthy, due to its strong profitability, low level of financial leverage, and robust liquidity position. During 2013 through the first nine months of 2016, the operating margin (operating profit before depreciation and amortization as a percentage of revenue) ranged from 8.8% to 9.7%, above the industry average of 6.1%. At the end of September 2016, the total debt to capitalization ratio stood at merely 7.3%, a very low level. STEC is better-positioned than most contractors in terms of working capital management. Its working capital needs are supported in large part by advance payments from project owners and the credit extended by suppliers and sub-contractors. The company's efficient working capital management keeps its external funding requirements low. STEC's liquidity position is solid. STEC puts aside sizable amounts of liquid assets to fend off liquidity risk. Cash and marketable securities stood at about Bt2.8 billion as of September 2016. Furthermore, the company had property investments, most of which were raw land, valued at about Bt3.7 billion in total. STEC's backlog stood at about Bt40.7 billion as of September 2016. The backlog is expected to rise to more than Bt90 billion, taking into account the large amounts of construction work for the three mass-transit lines. The estimated backlog will almost fully secure the forecast revenue over the next three years. TRIS Rating's base case forecasts revenue will grow steadily, reaching Bt30 billion by 2019.

At the opposite end, the cyclicality of the E&C industry and intense competition keep a lid on the rating. Each of these two factors takes a toll on the sustainability of STEC's revenue streams and profitability. Looking forward, STEC is expected to maintain a healthy financial profile. Over the next three years, TRIS Rating's base case assumes the operating margin will stay at 8%-9%, which means funds from operations (FFO) will range from Bt1.6-Bt2.2 billion per annum. The equity investments in the MRT Pink Line and the MRT Yellow Line projects are expected to raise gearing, but financial leverage will remain acceptable. The large amounts of STEC's current cash and marketable securities give the company financial flexibility. The funding needs for the equity investments will be met in part by the profits from construction work for the two mass transit projects. TRIS Rating forecasts the company's debt to capitalization ratio will stay below 40% over the next three years. Cash flow protection is likely to deteriorate, as financial leverage rises. However, STEC's liquidity profile is expected to remain consistent with the current rating.

Sino-Thai Engineering & Construction PLC (STEC)	
Company Rating:	A-
Rating Outlook:	Stable

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